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FOR THE BENEFIT OF THE LESS DEVELOPED AREAS

SUMMARY

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United Arab Republic

SPECIAL FACTORS AFFECTING INDUSTRIAL DEVELOPMENT IN LESS DEVELOPED AREAS WITH SPECIAL REFERENCE TO U.A.R.

By Y. EL MOLLA, Ph.D.
Under Secretary of State,
Ministry of Industry, U.A.R.

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No. 380

D. 1

Y. El-Molla, Ph.D.
Under Secretary of State
Ministry of Industry, UAR.

SUMMARY

Industrial development is, no doubt, the goal of all developing countries and it must be so since it is the economic sector which gives the highest returns to the national income and to the standard of living. However, in planning and carrying out development programmes, the developing countries confront so many obstacles or limiting factors which restrict, more or less , the potentialities for development. Local conditions should be thoroughly studied and each factor should be properly weighed.

Limiting factors may be either external or local or they may be either economical or institutional. The major limiting factors are:

a) The extent of the availability of raw materials

b) Financing

This is a decisive factor. The lack of foreign currency and the small size of savings are large obstacles. In developing countries the balance of payments surplus, in the early stage of developments, is usually inadequate for any important development programme.

Financing can be secured by the following means:

a) imposing restrictions on importation

b) welcoming foreign investment on basis of effective partnership

c) resorting to loans and credit facilities.

There is no harm in resorting to loans and credit facilities on large scale so long as the projects are carefully studied and are established on sound economic bases, because successful projects can be self-financing in a few years. Long-termed loans are appreciated especially if they can be refund from the production of the development projects themselves.

Technical know-how.

The lack of local technical know-how is a problem that imposes itself on developing countries in the different stages of development (planning, execution and operation). The problem can be solved by getting foreign experts and technicians from those countries which supply the machinery and equipment. There is a sure benefit in having foreign experts since they can train local technicians who can, afterwards, execute similar projects.

Managerial capacities.

Contrary to technical experience, imported managerial capacities

are not, in all cases accepted. This presents a very serious problem since managerial capacities are not easily acquired. However, arranging special training courses will be very useful in securing these capacities.

Technique. of planning.

Right from the very beginning, the problem of priorities will certainly impose itself on those who are planning development projects. In UAR we had to adopt a new method based on quantitative terms in order to determine the importance of each project in relation to other projects. The method can be applied by any other country giving that the weight of each element in the priority system should be decided upon according to the economic conditions of each country.

In this respect also, the State has provided a study form for the economic and technical evaluation of industrial projects.

Marketing.

It is quite natural that a developing country will face difficulties in foreign markets as the newly-produced articles have to compete in quality and in price, with highly established products and, in many cases, of world-wide reputation. Even local marketing may be also difficult as the local consumer may be reluctant to switch over from goods he has been accustomed to use since so many decades to local products quite new to him. In addition, the prices of local products may be higher than those of the corresponding imported ones.

In many cases, it may be necessary to impose restrictions to divert the consumer's preference from imported to local products.

Inflation.

Development programmes are usually accompanied by tendencies for inflation. Care must be exercised that the monetary policy should be wise and elastic enough to face inflationary effects since the existence of inflation increases the burdens of development and raises its costs.

Rigidities and institutional factors.

Institutional factors inherited since so many centuries may become a serious problem.

The elimination of rigidities which prevail the domaine of business is also an important factor. Work procedures, in all sectors, should be adapted to the requirements of industrial development.

Naturally, planning is required in economic societies of limited resources. This planning may impose certain restrictions on individuals in various domains. However, such restrictions should be endured by individuals in order to attain the ultimate objectives of economic development.

Developing countries are in persisting need for foreign aid whether financial or technical. Highly developed countries should not hesitate to offer this aid since by such cooperation, the developed countries will contribute to the welfare of a great portion of world population.